

RESEARCH CONDUCTED BY



# State of the Retail Supply Chain 2018

Growing and Sustaining  
Competitive Advantage in Retail

---

Research findings on supply chain planning and execution in the UK.

---



COMMISSIONED BY RELEX SOLUTIONS

© Copyright 2018 by Martec International Ltd. All rights reserved.

No part of this publication may be reproduced, transmitted, transcribed, stored in a retrieval system, nor translated into any human or computer language, in any form or by any means, electronic, mechanical, optical, chemical, manual or otherwise, without the prior written consent of Martec International Ltd, Martec House, 40 High Street, Taunton, Somerset, TA1 3PN, United Kingdom.

# Table of Contents

The Competitive Landscape	<b>6</b>
The Omni-channel Supply Chain	<b>9</b>
Demand Forecasting Challenges and Opportunities	<b>13</b>
Store and DC Replenishment Opportunities and Challenges	<b>16</b>
Space and Assortment Planning Opportunities and Challenges	<b>22</b>
Systems and Satisfaction	<b>27</b>
Replacement Plans	<b>30</b>
Survey Methodology and Research Criteria	<b>33</b>

# Introduction

The current landscape for UK retailers is getting more and more competitive, with many leading retailers facing uncertainty. This increasingly competitive market highlights the need for an effective and efficient supply chain becoming essential for survival and growth.

One of the largest perceived challenges is the growing dominance of Amazon. Of the companies we interviewed, 90% see Amazon as a significant competitive threat and 70% feel that the market is more competitive than ever. The most popular way to respond to Amazon taking market share is to focus on existing strengths (68% of companies).

This “State of the Retail Supply Chain” report is the fourth in an annual series commissioned by RELEX on how retailers’ view their supply chain planning operations. RELEX conducted a similar study in the US among grocery retailers entitled [“Growing and Sustaining Competitive Advantage in Grocery Retail”](#). Where relevant, we make comparisons between the two.

The retailers we interviewed represent 30% of the total UK retail market by sales, so we have a high degree of confidence that the results are applicable to all retailers.

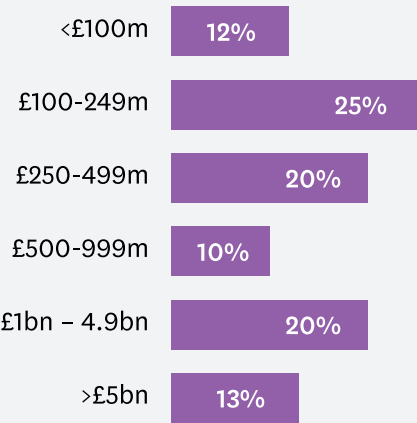
This report identifies several areas where we believe retailers could improve their operational efficiencies based on deficiencies they have highlighted.



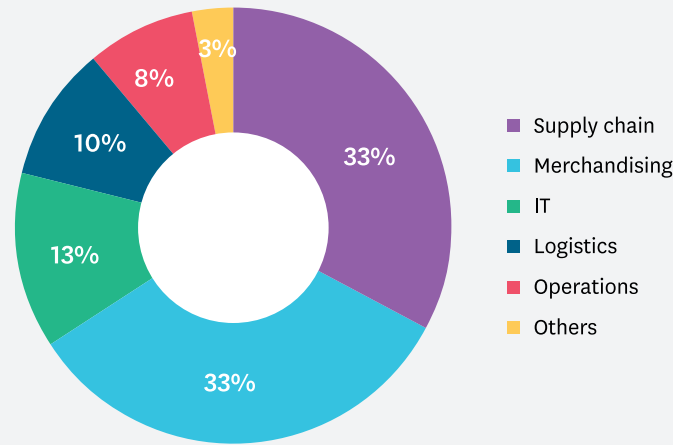
# Study Overview

Between February 2018 and June 2018, Martec International interviewed 38 senior individuals from some of the top retailers within the UK. More information on our Survey Methodology and Research Criteria can be found on page 33.

## ▼ Revenue



## ▼ Responsibility of people interviewed



51% of respondents are Vice Presidents, directors, department heads or controller level executives. The remainder hold senior managerial positions.

A third are responsible for supply chain and a third are responsible for merchandising. 13% are IT executives, 10% are logistics directors or executives, and 8% are in retail operations.

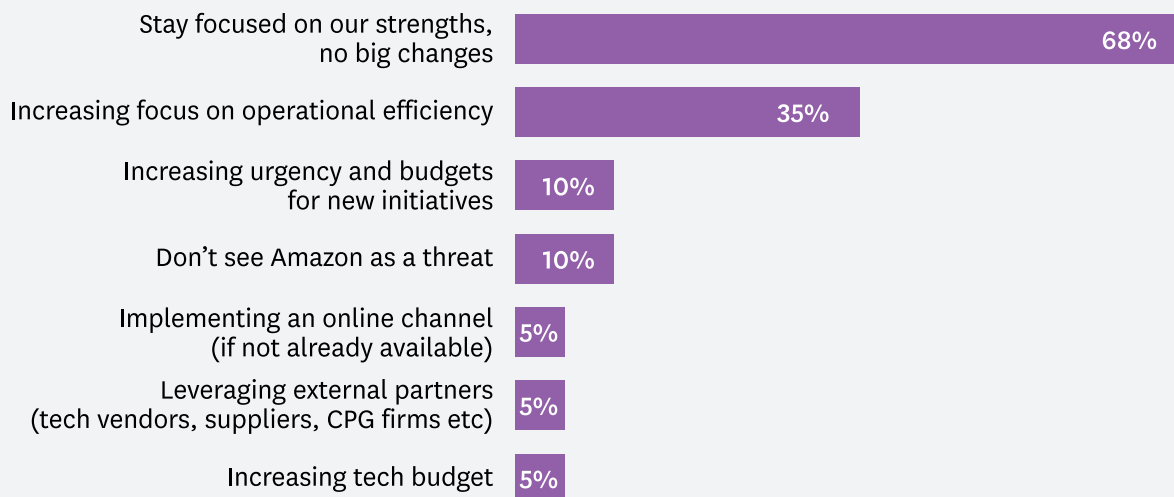
The sales in the companies included in this report amount to £109 billion. This accounts for 20% of the UK retail market. We believe it is a very representative sample and therefore we are confident that the results can be applied across the entire retail market.





# The Competitive Landscape

## ▼ What describes your company's reaction to the threat of Amazon?



Amazon's UK sales of £7.3 billion represent 2% of the entire retail market and 17% of online sales. Despite that, 10% of retailers still don't see Amazon as a threat. The majority of respondents (68%) are not planning to make any significant changes in response to the challenge from Amazon and are going to stay focused on their own strengths. Unsurprisingly, 35% said they are going to focus on operational efficiencies to compete with the internet retail giant and the changing retail landscape in general. Only 5% say they are planning to or are in the process of implementing an online channel, however as you will see on the next page of this report, that low proportion reflects the fact that most respondents companies have already established an online channel.

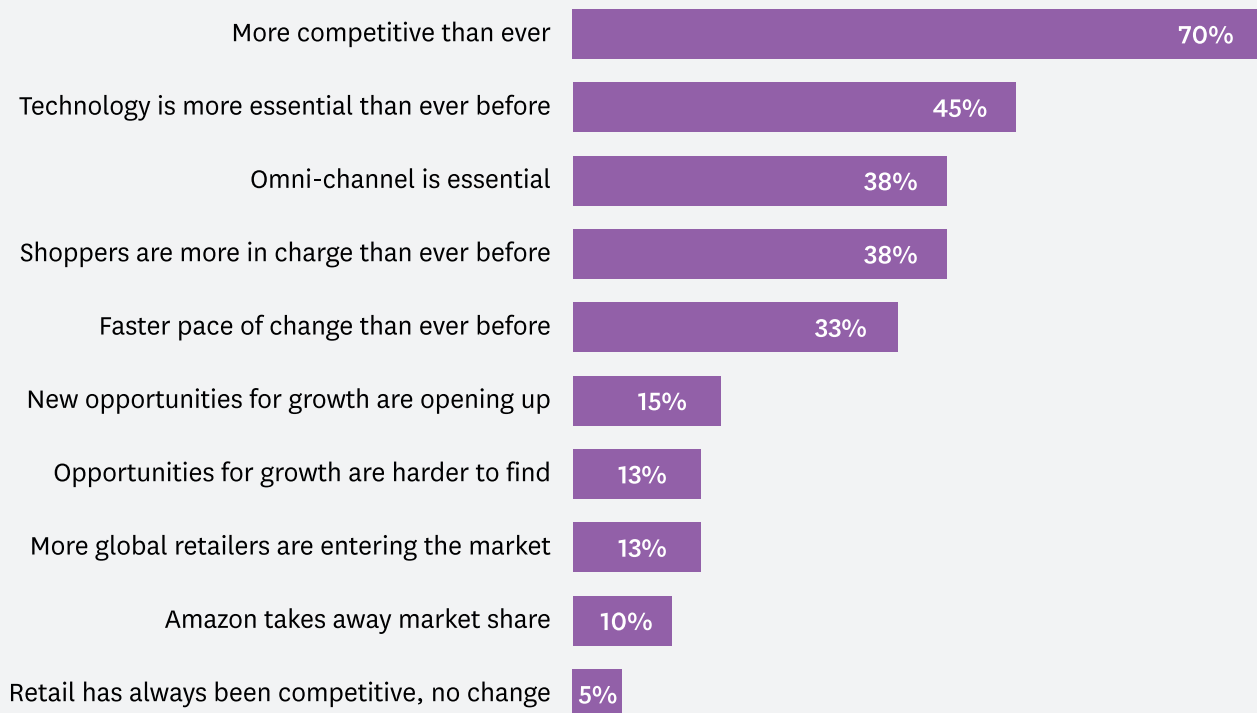
However, in the US, Amazon can already claim about 50% of all online sales, a sign of what may happen in the UK. Martec's research suggests that there is a level of complacency in these responses from UK retailers and that they need to do more than just focus on their existing strengths.

“

**We do talk about Amazon a lot but it is about doing what we do better and more efficiently.**

Supply Product Manager,  
Mass Merchant

## ▼ What is your assessment of the current competitive environment?



70% of respondents view the market as more competitive than ever (a very similar figure to the [US research report](#)). We are surprised that only 38% of retailers think that shoppers are more in charge than ever before as [other research](#) confirms rising consumer expectations, that retailers think they're doing better at meeting those than do their customers and that more than three quarters of consumers will take their business elsewhere.

“

**There is over capacity in the industry, that is the main problem. The customer is making the decisions on the channels they want to shop and that drives the requirements for the supply chain.**

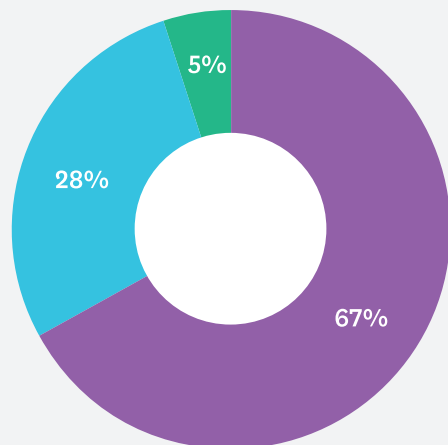
Supply Chain Controller,  
Mass Merchant





# **The Omni-channel Supply Chain**

▼ **What channels does your business operate?**



- Combined brick and mortar and online
- Brick and mortar only
- Online only

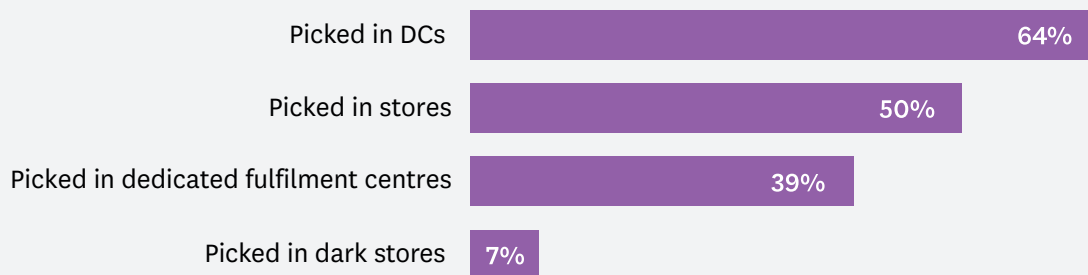
## Sales channels used

In 2017 online sales in the UK reached £58b, 16% of total retail sales. This ongoing shift to online appears to have been reflected in a growing number of store closures. So, it is not surprising that two thirds of the companies we interviewed already operate an omni-channel business with both stores and an online operation. Some 5% of those we interviewed have no physical stores, while 28% of the businesses surveyed only operate through bricks and mortar stores and have no online operation. The majority of those in the latter group are food retailers, in particular, convenience stores.





### ▼ Where are items picked for online order fulfilment?



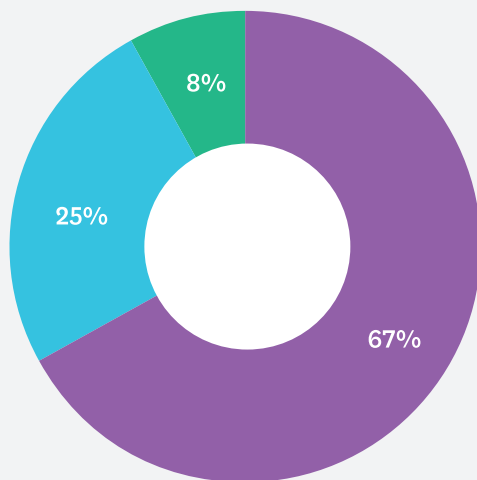
## Online order fulfilment

Retailers with an online channel use a combination of locations to pick items for online order fulfilment. Picking in DCs is most common (64%), then picking in stores (50%) and then picking in dedicated fulfilment centres (39%).

Many retailers use more than one picking option to fulfil orders, with picking both in DCs and stores being the most common combination. Retailers using multiple means to fulfil online orders generally operate a single stock pool from which they are able to fulfill orders, picking from whichever location is most efficient.



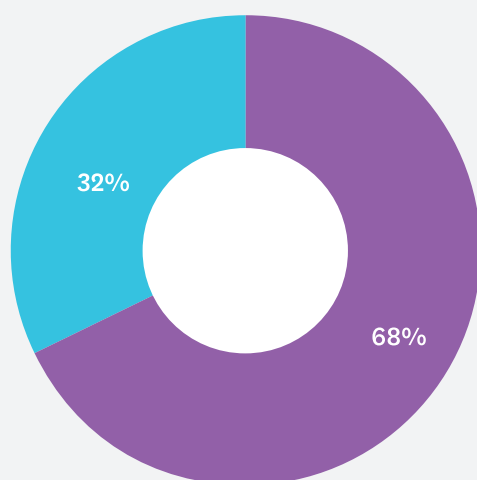
### ▼ How granular is your forecasting?



- Store-product-week
- Store-product-day
- Less-granular

Note: base is retailers with stores

### ▼ Do you forecast for online separately?



- No
- Yes

Note: base is retailers with brick and mortar and online channels.

## Sales forecasting

If we look at those retailers that operate stores, the majority forecast their sales at the store/product/week level (67%). One-in-four retailers, and not just those selling food but also some mass market FMCG retailers, forecasts daily. Eight per cent use other methods – mainly taking a more manual approach and forecasting at an aggregated level.

The more frequently a store takes in deliveries and the more those products display distinct demand variations depending on the day of the week, the more granular the time window of the forecast needs to be. To learn more about accurate forecasting, take a look at our [Measuring Forecast Accuracy Guide](#).

Only 32% of omni-channel retailers run separate forecasts for store and online sales, whereas 68% produce a combined forecast for both. As we noted in our 2018 US research report [“Growing and Sustaining Competitive Advantage in Grocery Retail”](#) the figures are very similar in the U.S.

Omni-channel retailers should give serious consideration to moving to separate forecasts for their store and online channels. If your online business is of a significant size it makes it much easier to spot best sellers and unpopular lines because of the aggregation of online orders. Also, the substitution patterns that you can identify from your online orders can also be applied to your assortment in stores to get a better forecast and estimate of true demand.

Martec anticipates that, as retailers’ forecasting becomes more sophisticated across their sales channels, the number of companies producing separate forecasts by sales channel will increase.



**Demand**

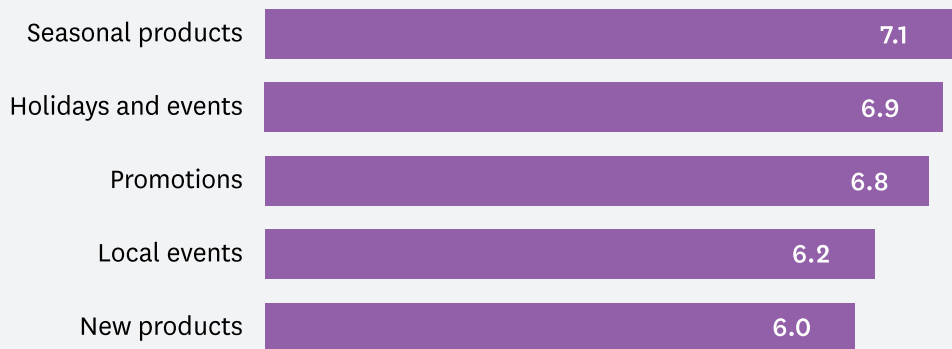
**Forecasting**

**Challenges and**

**Opportunities**



### ▼ Rate how efficient and accurate your forecasting is for:



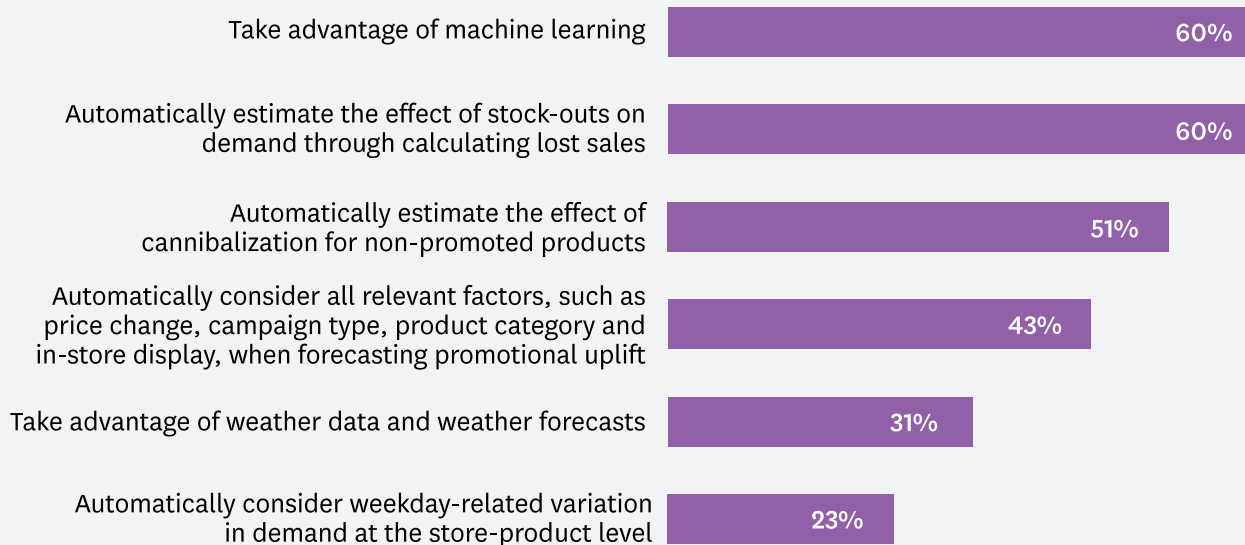
Note: this shows the average mark out of 10

## Efficiency and accuracy of forecasting

Satisfaction with the efficiency and accuracy of forecasting for non-routine products and events is reasonable but lower than with that for automated store replenishment. Based on its own experience and consulting projects, Martec strongly suspects that these results are highly optimistic.

The forecasting challenge where practitioners rate their efforts most highly is that for seasonal products (7.1 out of 10). Most retailers offer a substantial selection of items that are, to at least some degree, seasonal. It's logical that this is the area where automated or improved forecasting processes and systems have already been deployed. Satisfaction for forecasting for holidays and events is also high at 6.9 out of 10. We were surprised to see high levels of satisfaction with forecasting for promotions at 6.8 out of 10 because the finding of our 2017 study suggested that 40% of retailers see 'handling promotions effectively' as their main supply chain planning and execution issue. This is often the most problematic area for forecasting because most promotions are short lived and it is common to run out of stock towards the end of the promotional period.

## ▼ What would you like your forecasting system to do - that you can't do at present?



Note: this analysis excludes companies that don't do DC forecasting

## Systems requirements for forecasting

The awareness of machine learning is growing however while many supply chain executives are aware of the excitement that surrounds it, a significant proportion are unclear why. Having had the essentials of machine learning explained to them 60% of respondents expressed an interest in taking advantage of it, for instance, [to improve their forecasting](#).

Another top priority (desired by 60%) is being able to estimate the effect of stock outs on demand by calculating lost sales. A number of those surveyed mentioned that they do not currently calculate lost sales using their existing systems. Though there was a good level of satisfaction with promotions forecasting more than half the group (51%) were interested in being able to calculate automatically the [cannibalization](#) of sales of non-promoted items – something very few retailers are able to do at the moment apart from on an ad hoc manual basis.



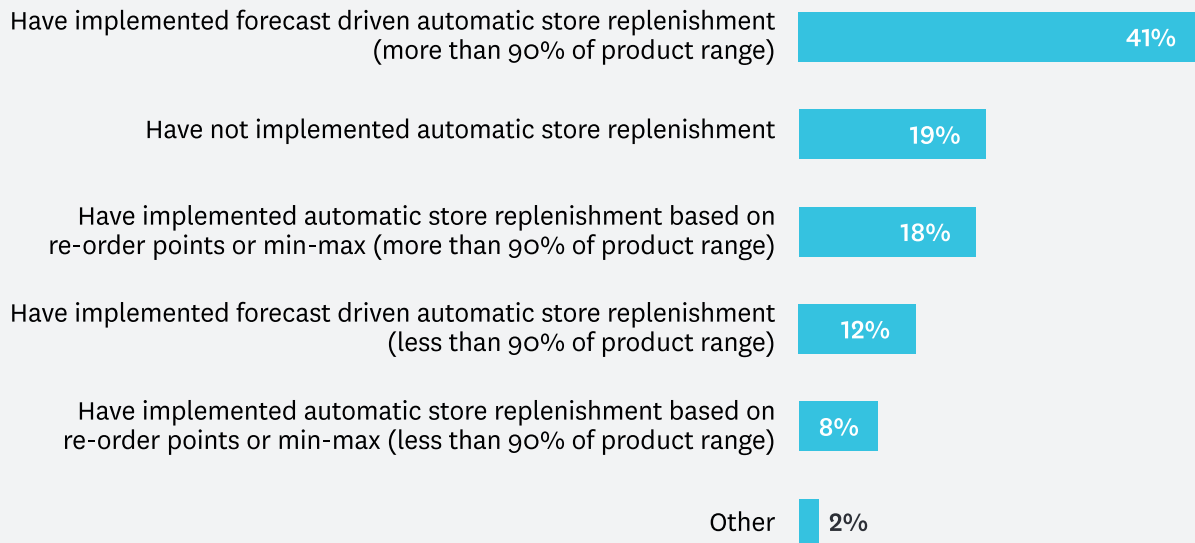
**Store and DC**

**Replenishment**

**Opportunities**

**and Challenges**

## ▼ What is the state of your store replenishment?



Note: base is retailers with stores only

## Store replenishment

At 19% the proportion of respondents yet to implement automated store replenishment, is very similar to the 20% we found when compiling our US research report. There are a number of intermediate steps that can be taken short of a full implementation of automated store replenishment. We found that the majority of retailers interviewed (79%) use some form of automated replenishment for stores – either based on min-max parameters or forecast driven. And we expect that this proportion will increase as more retailers automate their replenishment processes as they implement more advanced systems that alert users to issues that need their attention.



▼ **How efficient and accurate is your automatic store replenishment for:**



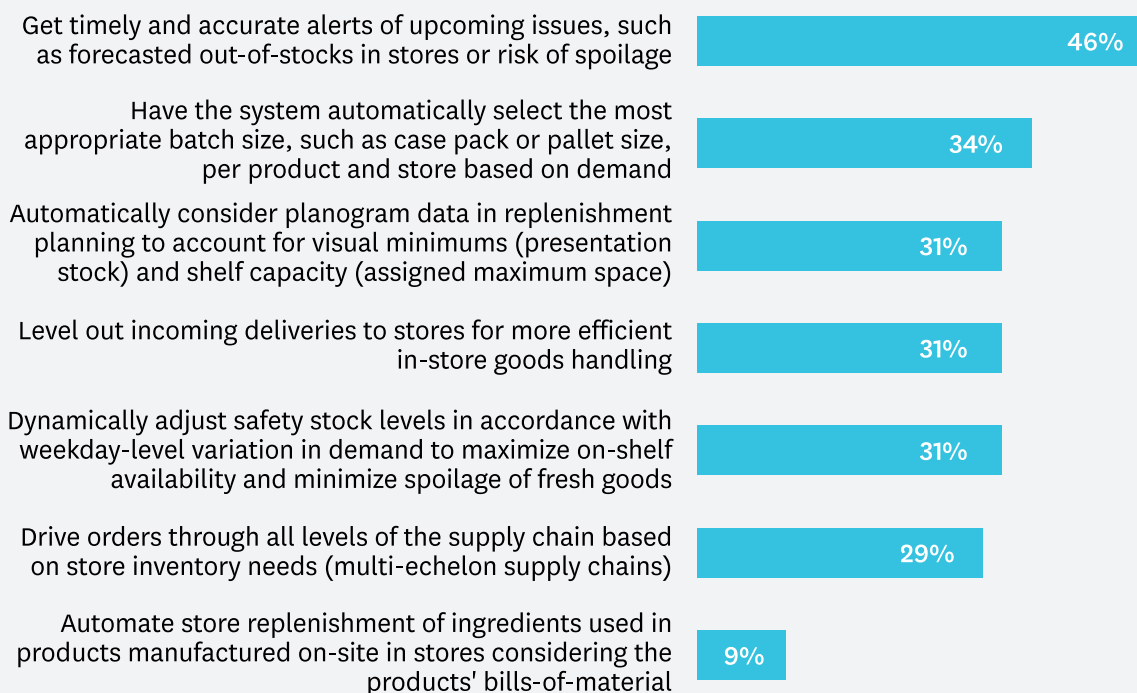
Note: this shows the average mark out of 10

## Efficiency and accuracy of automatic store replenishment

There is least satisfaction with automated store replenishment applied to promotions at 6.3 out of 10. Promotions always have the potential to cause trouble for retailers as they are generally short lived and generally involve maintaining high stock levels. Overall, levels of satisfaction with automated store replenishment are strong, perhaps even overly optimistic, particularly given that only 41% of retailers have fully implemented forecast-driven automated store replenishment. The high level of out-of-stocks would suggest that people have little justification for being content with their current solutions.



## ▼ What would you like your automatic store replenishment system do – that you can't do at present



## System requirements for automated store replenishment

Retailers expressed a wish to extend the capabilities of their automated store replenishment systems. Top of the list, at 46%, of things they don't have but would like is timely and accurate alerts of potential issues such as the danger of out of stocks in stores or spoilage. This is a desire for actionable information presented automatically in an alert, rather than simply having the information available but requiring search. Food retailers are more likely to want this than non-food as they are most likely to be able to take action to head off spoilage – such as marking down or order more stock in time to meet demand whereas retailers

“

**For food we have implemented fully automated systems and algorithms for each type of product and these have each had 5-10 years of ongoing investment.**

Merchandising Director,  
Grocery Retailer



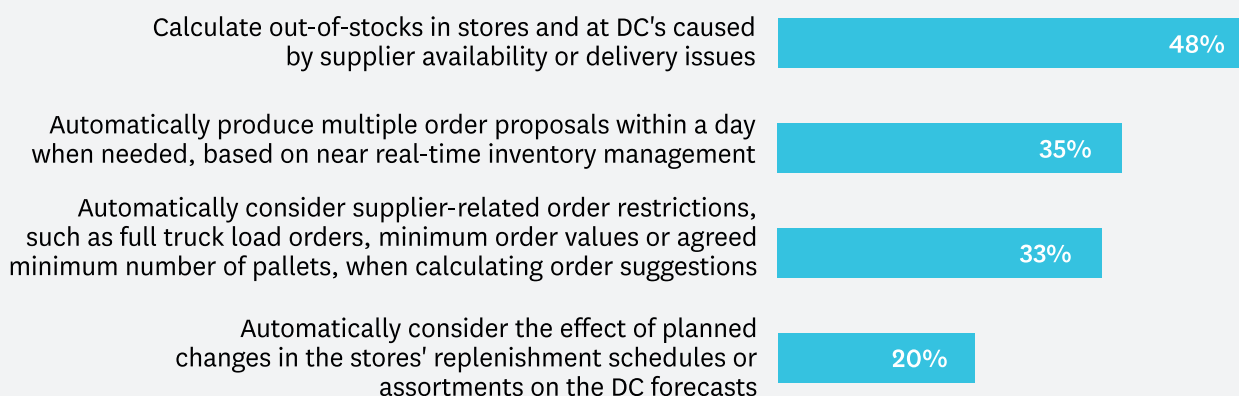
whose goods are coming in from the Far East on a long lead time cannot react in the same way. The next most prioritized feature (34%) would be automated selection of the most appropriate batch size, e.g. case pack or pallet size, per product and store based on demand. This is equally relevant to all retail companies.

“

**In the merchandising systems we lack a bit of granularity in the control we have over how replenishment is triggered for any given SKU-store combination. We also have some gaps in our data e.g. not taking into account whether there is a perfect returned example of a product sitting in a shop when we decide whether to push one out from the NDC.**

Senior Strategy Manager,  
Supply Chain, Department Store Retailer

## ▼ What would you like your DC inventory management system do – that you can't do at present



## Systems requirements for DC inventory management systems

The most sought after additional feature for DC inventory management systems is the ability to calculate out-of-stocks in stores and at DCs resulting from supplier availability and delivery issues (48%). This was also top of the wish list for US retailers, as detailed in our [US research report](#), as tackling this issue will increase customer satisfaction and reduce lost sales. Addressing supplier problems can both reduce out-of-stocks and cut safety stock levels maintained as a buffer against supplier delays.

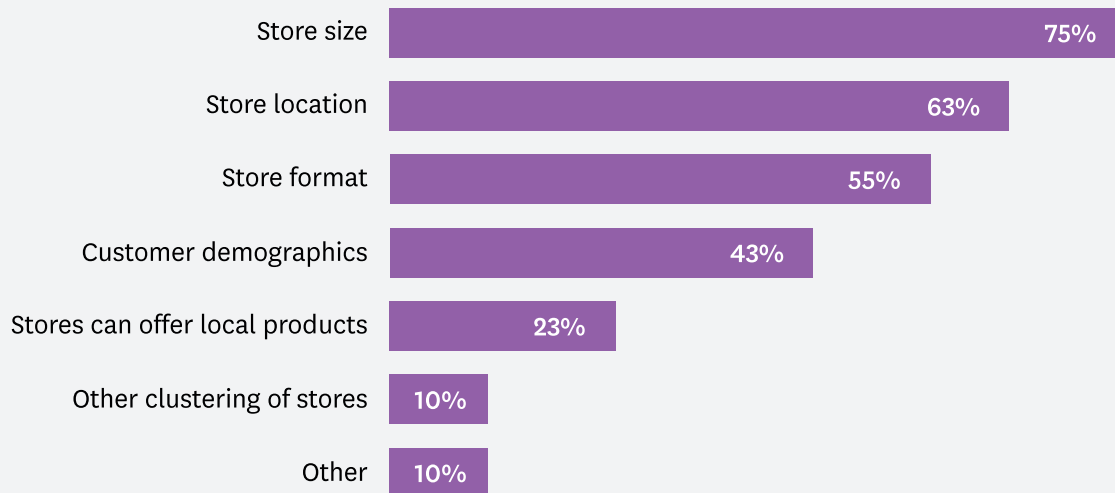
The next most desired feature (35%) would be the capacity to create automated order proposals, when needed, in less than a day and based on near real-time inventory management. Order proposals need to feed picking data to warehouses throughout the picking shift and later orders can be based on the latest information if near real-time inventory information is available.

The background image shows a modern retail environment. It features white shelving units filled with various products, a person walking through the aisles, and a robot in the foreground. The ceiling is high with a grid of lights. The text is overlaid on the image in five black boxes.

# **Space and Assortment Planning Opportunities and Challenges**



## ▼ What are your store assortments based on



## Space and assortment planning

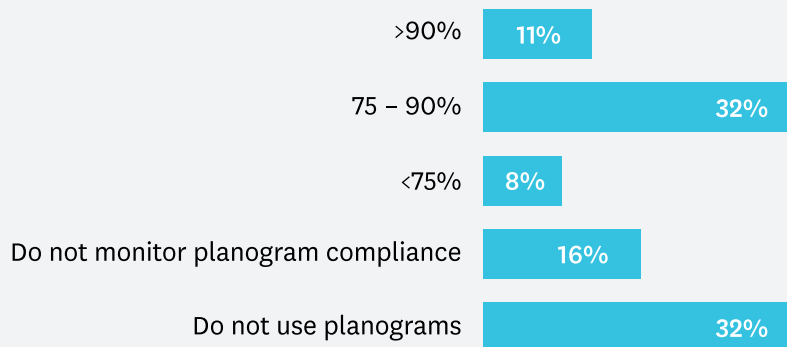
There are a variety of factors that respondents identified as influencing the decisions on store assortment, many of them space related. The most common are store size (75%), store location (63%) and store format (55%). These are all more self-referential than outward looking. A large minority (43%) do take customer demographics into account but presumably to a limited extent as only 23% allow stores to offer local products. None mentioned taking local competition into account and most prefer to plan assortments completely centrally. There's a surprising lack of customer-centricity.







### ▼ Level of planogram compliance



Note: home shopping retailers and wholesalers with no stores are excluded from this analysis

## Planogram compliance

Most of the retailers interviewed use planograms, but 32% (all non-food retailers) do not. For some companies planograms do not have obvious benefits or are more difficult to implement, for instance most of the department stores we interviewed don't use them because of the way they flex the space between departments and because many items in the wide range they carry aren't packaged or is clothing displayed on rails. Of those that do use planograms 16% don't monitor compliance, and of those that do monitor it only 11% of all retailers achieve compliance of 90% or better. Improving monitoring would boost these levels. Most that monitor compliance only achieve levels of 75 to 90% and this undoubtedly adversely affects their sales and profitability.

## ▼ What would you like your space and assortment planning system do – that you can't do at present



## Systems requirements for space and assortment planning systems

The top three things respondents would like their space and assortment planning systems to do (that they can't do at present) are;

- 1) Recommend localized store specific assortments (36%).
- 2) Use forecast rather than past sales as the basis for planogramming and monitor (36%).
- 3) Report planogram compliance (36%).

The latter ties up with the low level of planogram compliance reported. It is tough monitoring planogram compliance manually.

Using a space management system that can optimize shelf space based on local demand forecasts and replenishment cycles for each store makes store operations more efficient. Firstly, it allows almost all incoming deliveries to be placed directly on the shelves, minimizing the need for backroom storage and largely

eliminating the risk of stock-outs where goods are in the stockroom and not on the shop floor. Straight-to-shelf replenishment also cuts the number of trips between backroom and store floor.

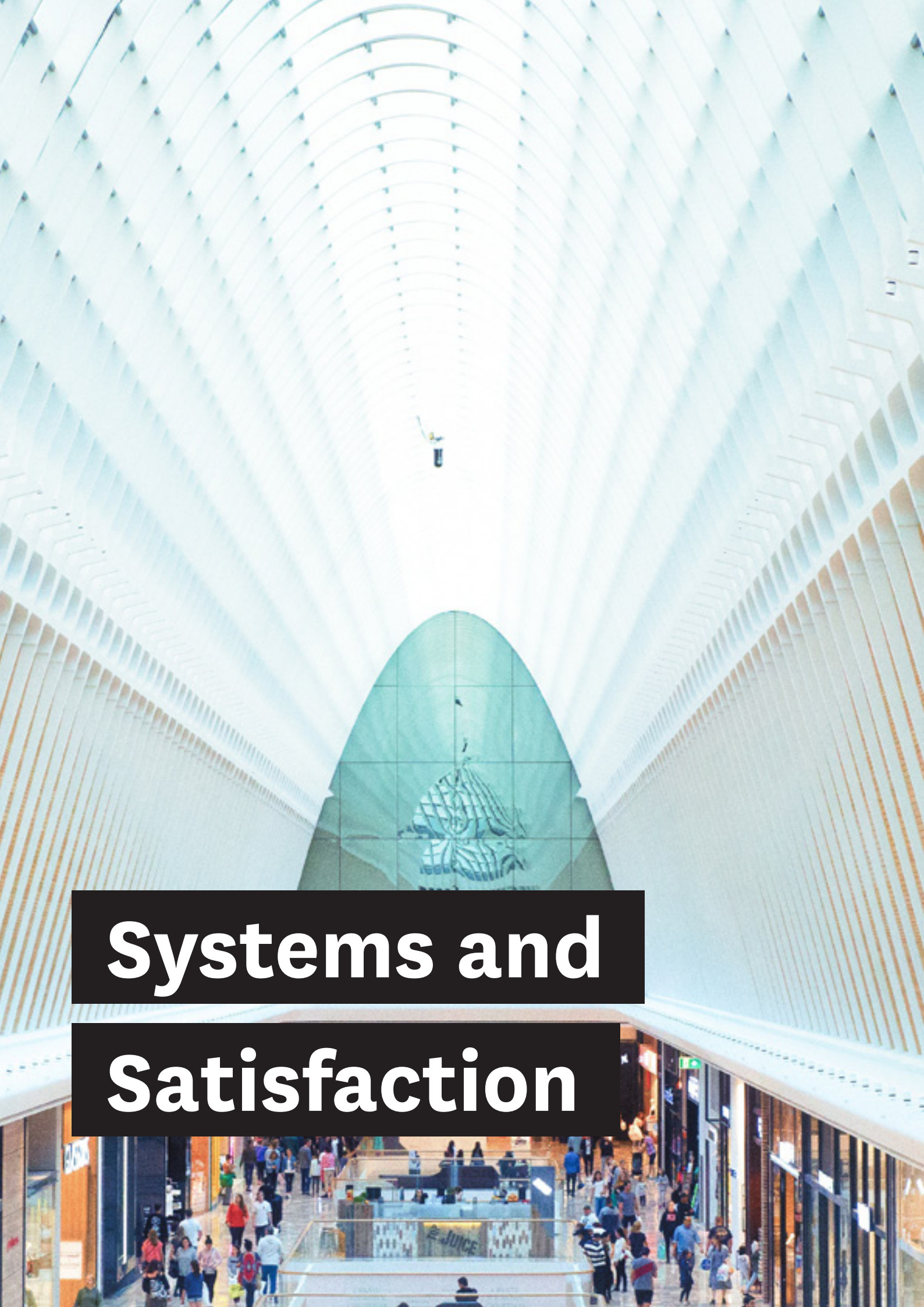
“

**It's manual regarding planograms. We give guidelines, but monitoring is low and planning to space is not a huge priority yet (that's one for future seasons!).**

Merchandising Director,  
Small Format Speciality Retailer

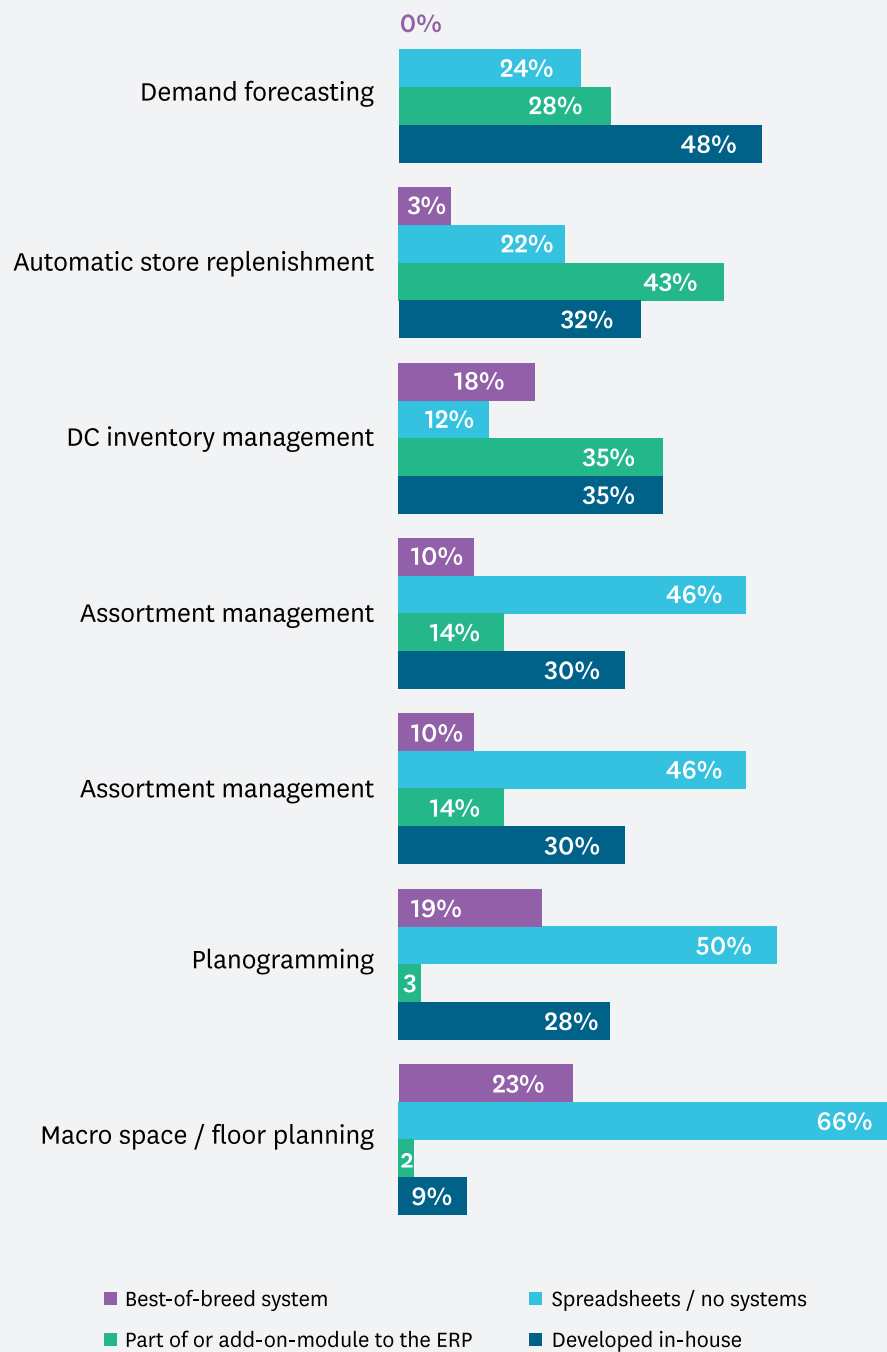






# **Systems and Satisfaction**

## ▼ Summary of systems used



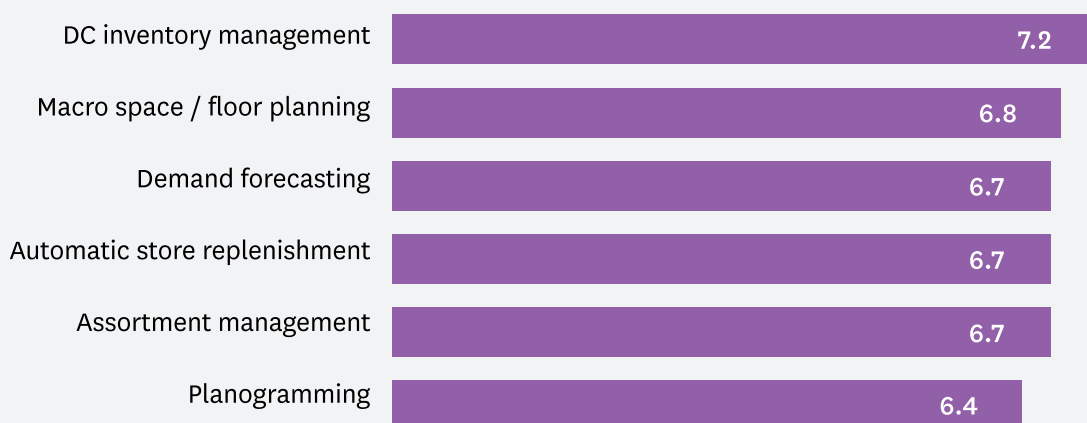
Almost half (48%) of demand forecasting systems are developed in house – the most common option, for automatic store replenishment it's ERP modules (43%), for DC inventory management ERP and in-house solutions are equally popular (both 35%) while for assortment management, planogramming and macro space / floor planning most respondents use spreadsheets or don't have any solution at all.



Planogramming and macro space / floor planning systems work well in certain retail sectors, notably food and large format speciality, but for those in fashion or that sell products from displays (such as opticians and kitchen and bathroom retailers) they are far less useful which explains why so many don't have a solution or use rudimentary spreadsheet-based systems.

In most instances companies use the same systems for demand forecasting as they do for automatic store replenishment.

### ▼ Satisfaction rating by type of system



Note: satisfaction ratings are the average out of 10

## Satisfaction with systems

Satisfaction with systems falls within a fairly narrow band with DC inventory management systems rating highest (7.2 out of 10) and lowest (but still respectable) for planogramming systems (6.4). Satisfaction levels are fairly high for all applications touched on in this study. Generally, satisfaction is highest with best-of-breed solutions or specialist modules that can be integrated with ERP systems to support key planning functions. Users frustrated with their systems would be well advised to consider such alternatives.

“

**We plan to replace our systems because of their age, it's all green screens and cutting and pasting stuff into Excel.**

Merchandising Manager,  
Small Format Speciality Retailer



**Replacement**

**Plans**



We identified high levels of replacement activity. 23% of respondents plan to replace their automatic store replenishment systems in 2018-19, 19% plan to replace their DC inventory management system and 19% their assortment management system. This is especially high in view of the average age of installed supply chain systems standing at 9.5 years. So, it does seem that retailers are realizing that without automated processes and systems their availability and customer service will suffer unacceptably. We believe many companies are planning systems replacement to support developing omni-channel businesses where there is a need to operate a single stock pool and to have totally integrated, automated supply chains across all sales channels.

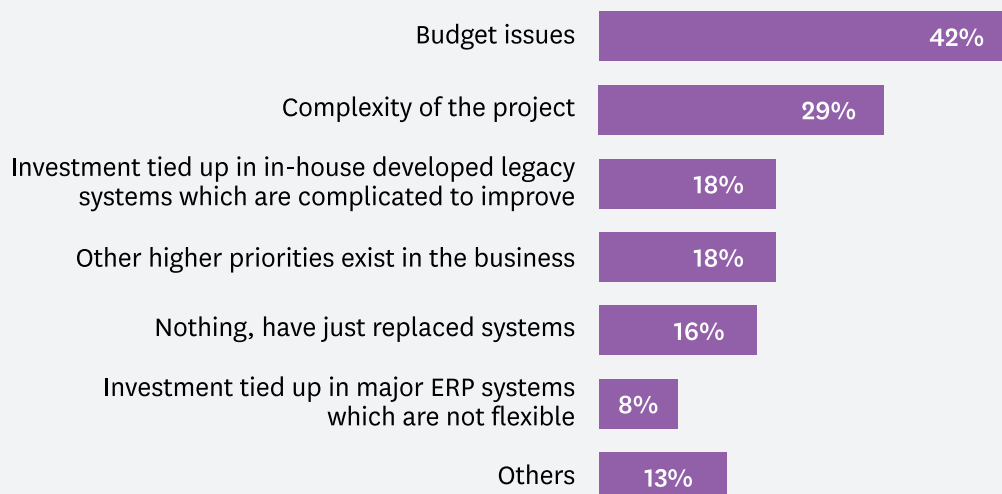
“

**It's about the business disruption, the complexity and interdependencies of integrating with other systems and the Total Cost of Ownership that drives the decision.**

Senior Supply Chain Controller,  
Mass Merchant



## ▼ What are the main things that would stop you from investing in new retail and supply chain systems



Budget issues is the main thing that stops companies investing in new retail and supply chain systems (43%), as well as the complexity of the project (30%). This is even though 45% see technology as a key way to remain competitive. The complexity of the project is compounded further for those whose investment is tied up in in-house developed legacy systems which are complicated to improve (18%). Of course, some retailers have recently invested in new systems so this question is not relevant, some 15% say that this is the case, really quite high in view of the average age of installed systems at 9.5 years.

The pain and cost of replacing supply chain systems are the key reasons for most companies still using older systems. Retailers who use in-house developed and ERP systems are most likely to perceive that it will be complex to replace them. In fact, most modern solutions do not take as long or involve as much complexity as old-fashioned systems did. With SaaS and cloud-based options, investing in a new system no longer has to mean lengthy contracts and bulk payments.

“

**We plan to replace our systems because of their age, it's all green screens and cutting and pasting stuff into Excel.**

Merchandising Manager,  
Small Format Speciality Retailer





**Survey**

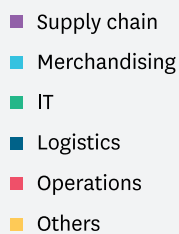
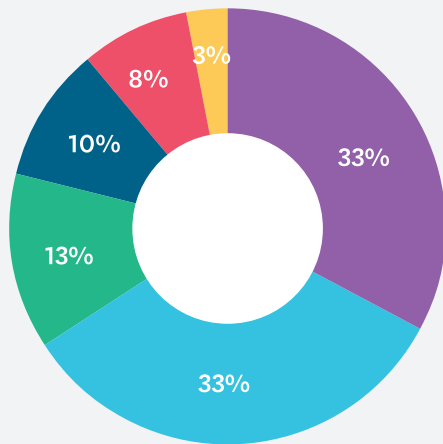
**Methodology and**

**Research Criteria**

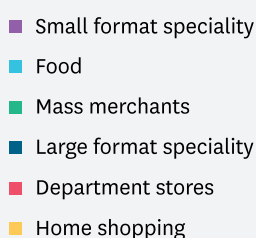
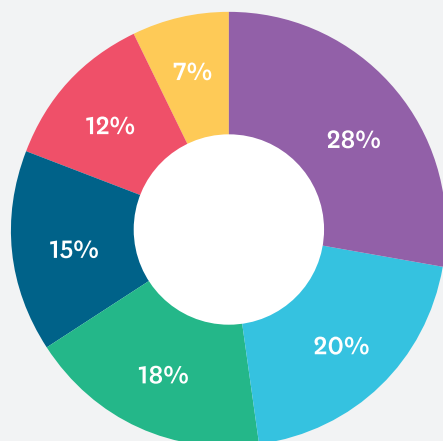


The results of this supply chain planning and execution research are based on 38 interviews with retailers in the UK. All the respondents were at the director, controller or managerial level. The interviews were conducted February to June 2018 among retailers with sales exceeding £20 million. The sales of these companies totaled £109 billion. This is a 30% share of the UK retail market so it is a very representative sample and we have a high degree of confidence that the results can be applied to the entire retail market.

### ▼ Responsibility of people interviewed



### ▼ Companies interviewed by sector



## Responsibility of people interviewed

The respondents are senior executives who are responsible for supply chain management across the entire business. 51% are Vice Presidents, directors, department heads or controller level executives. The rest are senior managers.

A third are responsible for supply chain and a third are responsible for merchandising. 13% are IT executives. 10% are logistics directors or executives. 8% are in retail operations.

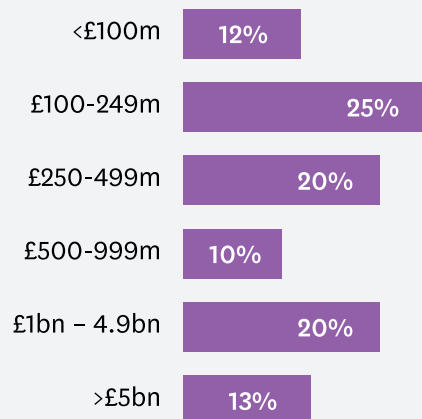
## Companies interviewed by sector

This survey covers all retail sectors. They comprise:

- ▶ 28% small speciality retailers including clothing, shoes, accessories, books and toy retailers.
- ▶ 20% food companies including supermarkets, cash and carry, wholesalers and convenience stores.
- ▶ 18% mass merchants – retailers selling a wide range of different products including discounters.
- ▶ 15% large format speciality retailers including DIY, motoring, garden centres and electrical retailers
- ▶ 12% department stores.
- ▶ 7% home shopping or mail order retailers with few or no physical stores.



## ▼ Companies interviewed by size of company



## Companies interviewed by size

All the companies interviewed were multiple retailers with sales exceeding £20 million. The largest group, representing a quarter of the survey respondents have sales between £100-£249 million. 13% of those interviewed are very large retailers with sales exceeding £5 billion.





# About RELEX Solutions

RELEX Solutions is dedicated to helping retail businesses improve their competitiveness through localized assortments, profitable use of retail space, accurate forecasting and replenishment, and optimized workforce planning. Our SaaS solutions deliver quick return on investment and can be used independently or jointly for unified retail planning, enabling cross-functional optimization of retail's core processes: merchandising, supply chain and store operations.

Our unified retail planning technology adapts easily to changing operations and processes, whether you are a fast-growing challenger or a multinational. RELEX enables businesses to plan better, sell more and waste less however fast the market changes. Bring us your toughest challenge and we'll help you solve it.

Through our retail expertise, innovative technology and agility, we build strong, enduring, award-winning partnerships with our customers. We can introduce you to any RELEX customer you choose for a frank and independent assessment of our solutions. RELEX Solutions is trusted by leading brands including WHSmith, Morrisons, AO.com, Coop Denmark and Rossmann, and has offices across North America and Europe.

**[www.relexsolutions.com](http://www.relexsolutions.com)**